

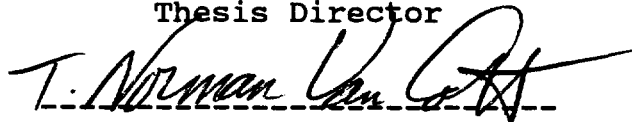
The Ministry of International Trade and Industry:
A Critical View of the "Japanese Miracle"

An Honors Thesis (ID 499)

by

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A handwritten signature in black ink, appearing to read "T. Norman Van Gort", is written over a horizontal dashed line.

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To Joelle Dooley

Introduction

There are many perspectives about how the Ministry of International Trade and Industry (MITI) in Japan works. These perceptions are, usually, framed as Japan, Inc. - viewing Japan as a monolithic government/industrial complex, with excessive targeting of industries and significant administrative guidance given to firms from above.

Upon studying MITI, it became evident that there is no clear explanation about the importance of the bureaucracy in the industrial policy of MITI. There are vast amounts of published material about what MITI does and how they do it. However, much less is known about the industrial policies' effectiveness and efficiencies in resource allocations, and the "theory" behind MITI. This paper will examine in depth the roles of the bureaucracy in guiding the Japanese economy and industrial sector.

The best descriptions regarding the role of the Japanese bureaucracy comes from Daniel I. Okimoto and Masahiko Aoki. Both put forth relatively the same interpretation of the role of the bureaucrat. Okimoto describes the role as "bureaupluralism," while Aoki uses the term "administrative pluralism." Because of the similarities of their viewpoints, this paper will rely on the description by Aoki of the bureaucracy in the Japanese economy.

Section one of this paper provides background information on the Ministry of International Trade and Industry (MITI). Section two traces the development of the ministry and human relations in

Japanese society. Section three explains MITI's role in the economy and how "administrative guidance works." Section four provides a description of the current generally accepted viewpoint on the Japanese bureaucratic system. Finally, section five evaluates the allocative efficiency of the ministry.

Section I

Background Information

There are many stereotypes in American perceptions of the industrial policies of Japan. The perceptions are often influenced by impressions of the high growth rate period of Japan - from the early 1950s to the early 1970s - when the industrial policy of Japan is alleged to have achieved its success. These perceptions are, usually, phrased as "Japan, Inc." In reality, all nations pursue an "industrial policy" of some sort. All democratic governments intervene in the free market - through fiscal and monetary policy, as well as other measures - in order to achieve desirable results. These policies, as long as they do not interfere with international trade, are consistent with the rules of the General Agreement on Tariffs and Trade (GATT).

The Japanese objectives and means of pursuing their industrial policy have changed over the years. Early postwar policy focused on economic recovery and emphasized export-promotion measures. In

1960, import liberalization began, and in 1964, direct export subsidies were phased out. Since the 1970s, the Japanese have pursued two objectives in their industrial policies. The first objective of Japanese industrial policy has been to help "lagging" industries essentially restructure themselves with governmental guidance. An example is the aluminum refining industry that was hit hard by the two oil crises. For these depressed industries, the goal is not to maintain the status quo, but to promote elimination of excess capacity, industrial consolidation, technological development, energy conservation and other revitalization efforts. The second objective for industrial policy in Japan is to promote development of new technologies that have potential for stimulating economic growth.

Contrary to popular belief in the United States, the level of government funding in Japan is relatively modest. In fact, the United States government accounts for 48% of all research and development, whereas the Japanese government only provides 28% of all research and development spending (Asao 25). In almost all cases, the adjustment policies in Japan have been accomplished with an increase in import volume. During the 1970-82 adjustment program in the aluminum industry, 57% of domestic capacity was eliminated, while imports rose from 28% to 79% (Asao 25). The question often arises, then why is Japan so successful?

Some analysts believe it is due to explicit Japanese policy of "targeting" industries. They believe that the government selects specific high-technology sectors, protects them with tariff

measures and intensively subsidizes them for eventual export purposes. However, in fact, Japanese tariffs on semiconductors, computers, optical fibers, machine tools, etc. are comparable to or lower than those of the United States and of the European Community (Asao 25). Japanese tariff policy may be more visible than the United States' policy, but the United States has pursued various policies to stimulate high productivity and international competitiveness among its domestic industries - most notably aerospace and agriculture.

It should also be noted that Japan's non-tariff barriers are an important part of their economy. The use of Japanese language, culture and tradition often hinders most foreign businessmen. Furthermore, Japan's rickety, old-fashioned distribution system is a major non-tariff barrier itself. "Most Japanese wholesalers handle only a few products and cover a small part of the country. They are bound together in a multilayered lattice, and half of their trade is among themselves rather than with suppliers and retailers" (Taylor 267). Unless a foreign producer can establish their own distribution network, its products will be handled by many middlemen before they reach the consumer. Although the United States and the European Community (EC) have chipped away at many of Japan's non-tariff barriers, those that remain are supported by constituencies that are so politically powerful that the Japanese government is not willing to pay the price for their removal.

Japanese industrial policy recognizes the market as the primary agent of economic activity. The government does not

intervene in the management of individual firms nor has it nationalized industries in financial distress. Instead of pursuing a state-run capitalism, the Japanese government stimulates growth by supplementing and "complementing" market forces. "It anticipates major developments that will affect the nation's economy and encourages the private sector to make the necessary adjustments as smoothly as possible" (Tucker 22).

The lead agency in the formulation and implementation of Japanese industrial policy is the Ministry of International Trade and Industry (MITI), which was formed after World War II to reconstruct the war-torn economy of Japan. "In addition to making industrial policy, MITI manages Japan's foreign trade and commercial relations, runs the patent office, and ensures that industry obtains an adequate supply of energy and raw materials" (Tucker 22).

Despite its influence, the financial resources of MITI are relatively small. In fiscal year 1983, it only received 1.6% of the government budget and spent a total of \$260 million on research and development. Also, the majority of the 2,500 bureaucrats of MITI are not technical specialists, but are well-trained civil servants with a solid grasp of the international market place.

Section II

Brief History

The planned rational system of government was introduced in the pre-war era in Japan. Meiji Japan began to shift away from State entrepreneurship to collaboration with privately owned enterprises. It favored those enterprises that were capable of rapidly adopting new technologies and that were committed to the national goals of economic development and military strength. The Ministry of Commerce and Industry was created in 1925 (Johnson 83).

On October 31, 1943 the Diet passed the Munitions Company Law (Gunju Kaisha Ho) which authorized the stationing of government officials in each factory and made them responsible for seeing that goals were fulfilled and rules followed (Johnson 167). This law established the principle of the separation of management from ownership. Also, the Munitions Company Law helped reorganize the economic ministries by abolishing the Cabinet Planning Board, Ministry of Commerce and Industry, Ministry of Agriculture and Forestry, Ministry of Communications, and Ministry of Railroads. Furthermore, on November 1, 1943, the Ministry of Munitions was established (Johnson 167). The Ministry of Munitions established nine regional Munitions Supervision Departments, which are the contemporary MITI regional bureaus. The main significance of the Ministry of Munitions is that later MITI managed to retain all the functions - including electric power generating, airplane

manufacturing, and industrial planning - brought together by the Ministry of Munitions.

In 1949, the Japanese abolished the Ministry of Commerce and Industry and the Board of Trade and combined their former functions into one ministry called the Ministry of International Trade and Industry (Johnson 191). Also during 1949, Supreme Commander of Allied Forces - Pacific headquarters (SCAP) began a policy of transferring some of its controlling and supervisory powers to the Japanese government. On February 2, 1949, SCAP delegated to the Japanese government all control over foreign exchange accruing from international trade. It also ordered the creation of the Foreign Exchange Control Board to supervise the investment of these funds in industries that were essential to the economic recovery of Japan. SCAP, also, encouraged the Japanese to pass the Foreign Exchange and Foreign Trade Control Law. One of the provisions of this law required any citizen who acquired foreign exchange to turn it over to a government account, and then the Foreign Exchange Control Board was put in charge of how these funds were used. Until the end of the occupation, the Economic Stabilization Board (ESB) drew up periodic foreign exchange budgets to spend the accumulated foreign exchange. On August 1, 1952, the ESB and the Foreign Exchange Control Board were abolished. The powers to enact and supervise the foreign exchange budget were transferred to the newly created Budget Section of the International Trade Bureau of MITI. At the same time, the power of the old Foreign Capital Committee of the ESB to supervise all imports of technology and all

joint ventures were transferred to the Industrial Finance Section of the Enterprises Bureau of MITI. After these changes were completed, MITI came to possess weapons of control and management that exceeded anything its predecessors had ever known during the prewar and postwar time periods (Johnson 194).

SCAP believed that the Foreign Exchange and Foreign Trade Control Law of December 1949 was merely temporary. The act authorized the government to maintain control over foreign exchange and foreign trade transactions to the extent necessary to safeguard the balance of international payments. In effect, it transferred responsibilities exercised by SCAP since the beginning of the occupation. "The restrictions in the law were to be gradually relaxed by cabinet orders and ministerial ordinances as the need for them subsided (Johnson 194)." The law was not "gradually relaxed" by the Japanese government and remained on the books well into the 1980s. It was the single most important instrument of industrial guidance and control that MITI ever possessed (Johnson 195). "As Leon Hollerman put it from the perspective of 1979, 'In liquidating the occupation by 'handing back' operational control to the Japanese, SCAP naively presided over the institutionalization of the most restrictive foreign trade and foreign exchange control system ever devised by a major free nation'" (Johnson 195).

The eruption of the Korean War on June 25, 1950 ended the stabilization panic created in Japan by Joseph Morrell Dodge's (1890-1964) inflation control methods. However, the war created new problems for Japanese companies. They could not keep

investment capital to finance orders placed by the Americans. This problem led to a two-tier structure of government-guaranteed "city-bank" overloans and newly created government-owned "banks of last resort." The banks of last-resort, particularly the Japan Development Bank (Nihon Kaihatsu Ginko, abbreviated as 'Kaigin'), came to possess powers over the whole economy as a result of their decision to make or refuse "policy loans" (Johnson 200).

The system of overdraft loans saved Japanese companies from the short-term pressure of stockholders which was an advantage when competing with Americans. The overdraft system required an industry to get a loan for expansion from a commercial bank. The commercial bank would go to the Bank of Japan to insure their loan. The Bank of Japan controls overdrafts and follows the guidelines on how much money to extend based on recommendations from the Enterprise Bureau of MITI. The overdraft system increased civilian demands, which the government wanted anyway, for the protection of the Japanese economy.

The overdraft system in Japan helped to form the bank keiretsu (conglomerate groups) as successors to the old zaibatsu, which was dismantled during the occupation. The companies became dependent on the banks for capital, and the banks depended on the success of the firms because of the heavy indebtedness of the firms to the banks. The "Big Six" bank keiretsu in the 1950s were Fuji, Sanwa, Dai Ichi, Mitsui, Mitsubishi, and Sumitomo (Johnson 205). The typical keiretsu group contained a bank which provided capital, several industrial firms, and a general trading company that

provided raw materials and sold exports. Many of the old family zaibatsu re-established themselves as bank keiretsu in this structure. For example, Mitsui Bussan and Mitsubishi Shoji zaibatsus were dissolved on November 30, 1947. They were liquidated on August 31, 1950. In 1952 Mitsubishi recombined into the bank keiretsu structure, as did Mitsui in 1955 (Johnson 206).

The keiretsu is an industrial group that consists of vertical or conglomerate groupings of companies that are characterized by long-term association, cross-holdings of stock, extensive business dealings, or sharing of company name. The keiretsu do not violate antitrust laws in Japan, but their actions can.

The two types of industrial ties are either conglomerates or vertical groupings. Today, there are eight major keiretsu organized into conglomerates using the following ties: cross-holdings of shares, presidential councils, intra-group financing by a common bank, mutual appointment of officers, use of a trading company for market organization projects, and joint investments in new industries. Conglomerate ties give easier financing through member banks and 14-22% of the stock is owned through cross-holdings.

In comparison is the vertically integrated keiretsu in Japan today. No criteria distinguish them from other large vertical groupings. Vertical keiretsu hold the shares of each other, exchange information, and cooperate in new ventures. The closest relations are between buyer and supplier or between the parent company and its suppliers. These close links substitute for legal

work. Mutual trust allows for differences to be resolved. For example, one side will take a loss for another, knowing that someday the opposite will reciprocate. Moreover, the Japanese system of permanent employment reinforces this keiretsu system.

MITI helped to rebuild the trading companies (zaibatsu) into the keiretsu by issuing laws that authorized tax write-offs for the cost of opening foreign branches and for contingency funds against bad debt trade contracts. MITI went so far as to assign an enterprise to a trading company if the enterprise did not have one. MITI managed to condense the 2,800 trading companies after occupation down to 20 big companies. Each of these companies served a bank keiretsu or cartel of smaller producers. The bank groups were very much like the old zaibatsus, except that the groups were better managed and more competitive (Johnson 206).

In December 1949, the Industrial Rationalization Council (Sangyo Gorika Shingikai) was created. The purpose of this Council was to act as a liaison between business and government. Although the Industrial Rationalization Council had no authority to enforce its proposals on a particular enterprise, its sponsor, MITI, could and did cut off access to foreign exchange of any firm MITI felt was wasting valuable resources (Johnson 217).

Once the occupation had ended, Prime Minister Yoshida ordered a general review of the executive branch and all laws and ordinances inherited from the SCAP era. During this time, MITI totally reorganized itself. The revisions of MITI put it on a collision course with the SCAP-created institution, the Fair Trade

Commission (FTC; Kosei Torihiki Iinkai), which overlooked and administered the Antimonopoly Law (formerly called the Law Relating to the Prohibition of Private Monopoly and to Methods of Preserving Fair Trade) (Shiteki Dokusen No Kinshi Ayobi Kosei Torihiki No Kakuho Ni Kan Suru Horitsu) (Johnson 221).

To better comprehend the activities of MITI, it is first important to understand the Japanese individual character. In Chalmers Johnson's book, MITI and the Japanese Miracle, Kusayanagai Daizo puts forth the argument that all human relations in Japanese society are based on four kinds of "factions" (batsu): keibatsu (family and matrimonial cliques); kyodobatsu (clansmen, or persons from the same locality); gakubatsu (school and university classmates); and zaibatsu (factions based on money, a term that should not be confused with its specific reference to the family-dominated industrial empires, or zaibatsu, of pre-war Japan). All of these relations occur in the bureaucracy of MITI (Johnson 55).

First, evidence of keibatsu relationships can be found in MITI. These ties are not accidents. Many young bureaucrats ask their seniors to arrange their marriages, and the senior bureaucrat will often have keibatsu considerations in mind when proposing matches. In fact, some MITI officials feel that it is better for one's career to have good keibatsu than a poor one. During the period 1949-1959, it was even found that higher civil servants had more prominent father-in-laws rather than prominent fathers (Johnson 56).

Second, kyodobatsu are similarly present among Japanese bureaucrats. The former MITI vice-minister, Tokunaga Hisatsugu (executive director of New Japan Steel after retirement) was from the same area of Fukuoka prefecture - that is, they both belonged to the same kyoto (literally, "village party") as his "senior" (sempai) Minister Ishii Mutsujiro.

Third, although keibatsu and kyodobatsu are part of any large Japanese organization, gakubatsu relationships are by far the single most influential force within the Japanese bureaucracy. "The cliques of university classmates are inseparable from bureaucratic life because it is their university degrees and their success in passing the Higher-level Public Officials Examination that set bureaucrats apart from other elites in society" (Johnson 57). Gakubatsu forms the largest "old boy" network throughout Japanese society as a whole.

Section III

What MITI Does

The first move by MITI into "administrative guidance" was on February 25, 1952. At this time the SCAP-created Temporary Materials Supply and Demand Control Law had expired. This law allowed MCI to exercise absolute control over all commodities in the domestic economy. MITI contended that allowing this law to

expire demonstrated their liberal and less control-oriented ministry. However, MITI still controlled the foreign exchange budgets and used them to carry out their policies. On February 25, 1952, MITI informally advised 10 large cotton spinners to reduce their production by 40% and the Ministry assigned quotas to each individual firm. MITI reminded those enterprises that if they rejected this "administrative guidance" that foreign currency allocations for their next month's supply of raw cotton might not be available. The FTC said that the action of MITI was illegal, but the Ministry replied that the Antimonopoly Law did not cover informal advice from the government, and it persisted in its policies (Johnson 225).

Many of the laws of MITI following occupation helped to form their "guidance" policy. For example, the Special Measures Law for the Stabilization of Designated Medium and Smaller Enterprises and Exports Transaction Law authorized MITI to create cartels among small businesses as exceptions to the Antimonopoly Law. Another new institution created in 1950 was the Japanese External Trade Organization (JETRO). This institution was set up to overcome the problem of "blind trade," the view that manufacturers were operating without detailed information on what they should be producing for various foreign markets. Also, they lacked agents to monitor changes in tariff rates and specifications for products, as well as, marketing new Japanese products. The JETRO was established to do these things (Johnson 230). The JETRO was transformed into a public corporation with all of its capital

coming from the central government. MITI also provided key personnel to JETRO starting in 1951.

Another policy shift that helped "administrative guidance" were the adjustments by the Ministry of Finance in the Taxation Special Measures Law. During the occupation by SCAP, Professor Carl S. Shoup of Columbia University accompanied Dodge to Japan. The Shoup mission helped simplify the tax system with an aggregated income tax, as well as, eliminating special tax benefits and creating a locally controlled value-added tax. The main problem of the adjustments to the Special Measures Law by Shoup were that they were hostile to the preferential treatment of strategic industries (Johnson 233). In 1951, however, the Ministry of Finance, in consultation with the Enterprises Bureau of MITI and the Industrial Rationalization Council, proceeded to slowly revise the old Taxation Special Measures Law, which totally dismantled the Shoup system. The revisions helped businesses by creating two types of reserve funds - hikiatekin and jumbikin. Hikiatekin are normal, accepted reserves of the sort found in corporation tax laws of most nations. Jumbikin provide for tax deferment, not tax exemption. Used creatively, jumbikin can free a company of all taxes during a given year. Both types of reserves can be excluded from taxable profits (Johnson 234).

Contrary to popular belief, industrial policy in Japan is not imposed from above, but emerges from a continual process of consultation between government and industry. MITI uses "administrative guidance," a unique Japanese form of official

persuasion, to convince the private sector to comply with its policies. Since the statutory powers of MITI are limited, it does not attempt to enforce its will through the legal system. In fact, if it did, companies would challenge MITI in court and win. Instead, MITI backs up its advice with a variety of incentives and disincentives. The incentives include subsidies, tax incentives, and directed research and development projects; the disincentives include "gentle arm-twisting" and implicit threats of new legislation. Even with the disincentives, private firms are likely to resist administrative guidance if they believe their interests diverge significantly from the definition of national interest of MITI (Tucker 25).

One of the most effective tools of MITI for achieving influence is to work with industry and other interest groups to build a unified "vision" of the future industrial policy of Japan that will best meet the changes in the international marketplace. The forums for this "vision-making" are some 30 "deliberative councils," such as the Economic Council. Included in these councils are representatives from trade associations, government, academia, mass media, labor, and consumer and public interest groups. These various groups discuss which industries and technologies should be targeted for special favors and which industries are noncompetitive and should be phased out. The consensus that emerges from the "vision-making" by these bodies is published (as a "white paper") and distributed throughout Japan. Although this document is supposed to serve as a guideline for corporate strategic planning,

the extent of compliance is left up to the firms in the private sector (Tucker 25).

An example of how this consensual relationship works is found in the Economic Council. Economic planning is officially discussed and formulated by the Economic Council at the request of the Prime Minister and then reported to the Cabinet for its official sanction. While the Economic Council is dominated by businessmen, all the various other constituent groups are represented. The Prime Minister sets the general orientation of the plan at the outset by the intention in his letter of request for planning. Economic planning then becomes a consensus-formulating process within that framework. The Planning Bureau of the Economic Planning Agency functions as secretary for the Economic Council and prepares a draft of all ideas from the meetings subject to minor revisions at the final meeting of the council.

During deliberation on the plan, other ministries dispatch representatives to the Economic Planning Council meetings to insure that no "plan" creates measures counter to the interests of their ministries. Economic planning does not "plan," but , rather, reaches a consensus for general economic targets by giving the public and the private sector a say in the process. The economic plan that is formulated does not have any binding power. However, it may legitimize the budgetary demands of the ministries consistent with plan in the first few years of its implementation. The Ministry of Finance carefully intervenes behind-the-scenes at

Economic Council meetings to insure that its discretionary budgetary powers are not limited (Shoven 277).

Richard J. Samuels, director of the MIT-Japan Science and Technology Program, describes the "vision-making" process as a form of "reciprocal consent." "In exchange for the use of public resources, private industry grants the State the power to define industrial structure in the national interest" (Tucker 25). This process creates a stable framework of economic growth benefiting everyone.

In the 1950s, MITI had fully developed its system of nurturing industries. First, an investigation for a basic need in an industry is made and a basic policy statement is drafted. Second, foreign currency allocations are authorized by MITI and funding is provided by the Japanese Development Bank. Third, licenses are granted for imported technology. Fourth, the industry is designated as "strategic" in order to give it special and accelerated depreciation on its investments. Fifth, the industry is provided with land on which to build its installations, either free of charge, or at a nominal cost. Sixth, the industry is given key tax breaks. Finally, MITI creates an "administrative guidance cartel" to regulate competition and coordinate investment among the firms in the industry (Johnson 236).

When formulating policy, the goal of MITI is to create orderly markets with a limited number of strong competitors. Unlike the United States, MITI is not concerned that excessive concentration of power will lead to monopolies. The greatest fear of MITI is

that excessive competition will lead to "chaos." Also, unlike the United States, the Japanese view the international marketplace - not just the domestic economy - as the standard in which to measure a company's market share. For these reasons, MITI tolerates and creates significant concentrations of economic power in giant financial/industrial groups, such as Mitsubishi and Mitsui (Tucker 25).

In addition to heavily focusing on industry, Japanese research and development is oriented almost entirely toward the civilian economy. In Japan, the main government body responsible for industrial research and development is the Agency of Industrial Science and Technology (AST), a branch of MITI. The agency runs 16 national laboratories with a staff of 300 bureaucrats and 3,500 scientists. They perform research in fields ranging from advanced materials to electronics.

Contrary to popular belief, the Japanese government funding of research and development is relatively modest compared to the United States. In the United States, the government accounts for 32% of all research and development expenditures in the non-defense sectors (Asao 25). However, when military research is included, the United States figure is more than 50% of the research and development budget (Tucker 27). On the other hand, in Japan the government provides only 28% of all research and development spending (Asao 25). Only about 2% of the Japanese research and development budget goes to military research. Moreover, the research and development is targeted at the civilian economy,

whereas in the United States research and development goes to the military, with hopes that spin-off technologies will be applicable to the civilian economy.

The entire "administrative guidance" proposal represents a description of a desirable direction for future industrial activities. The process is noncoercive. Individual firms are free to ignore the "vision", and can and often do establish their own objectives. Far from colluding with business, Japanese industrial policy tries to foster a climate in which mechanisms of free and competitive markets can operate. When the government intervenes in the market place, it does so, not to replace or distort the market system, but to complement and improve it.

Section IV

Theory of MITI

Scholars are divided as to the importance of MITI's industrial policy in creating the postwar miracle in Japan. "Chalmers Johnson, professor of political science at the University of California (Berkeley), views MITI as the activist hub of the 'developmental state'" in his book MITI and the Japanese Miracle (Tucker 22). Phyllis A. Genther, author of "Japanese Government - Business Relations," believes that to understand MITI, one needs to look at the culture, history, administrative rules and

competitiveness of the Japanese people. David Friedman, in The Misunderstood Miracle, argues that the industrial policies of MITI did not affect the growth of Japan as much as did their decision to use flexible production techniques as opposed to the mass production techniques of the United States. Friedman feels that flexible manufacturing allows the Japanese to use the technology to fill the niches that mass-produced products leave in the markets. Other analysts argue that the subsidies of MITI are relatively modest, and that the ministry is far from perfect in its choice of which industries to support and advise. For example, "MITI's desire to consolidate the auto industry around Toyota and Nissan served the interests of those firms and of struggling smaller firms whom they might absorb, but not the stronger medium-sized firms who carried on independently; the alliances made by the latter with the U.S. automobile producers hardly served MITI's preferences" (Caves 151).

According to Masahiko Aoki, there are three views regarding the role of the bureaucracy in the Japanese economy. The first view is the "rationality view" which views the bureaucracy as contributing to the efficiency of the Japanese economy by being an independent rational actor in the political-economic process. The "adversary view," contradicts the first by regarding bureaucratic intervention in the market mechanism as ineffective and redundant. Bureaucratic intervention is even considered to be harmful to economic efficiency and other social values. The third view is the "interest-representation view." This holds that the bureaucracy

represents specific or pluralist interests in the economy. This view has the bureaucracy maintaining a quasi principal-agency relationship with constituent interests (Shoven 265).

Even within each view, there are varying perspectives as to the exactly role the Japanese bureaucracy plays in economic affairs. In the rationalist view the notion of "Japan, Inc." emerges. This view holds that the Japanese economy is a bureaucracy-led coherent system. Others see the rational view as one whereby the bureaucracy compliments the functioning of the market mechanism. Even among the "complementarists" the role of bureaucracy differs. For example, some argue that "economic planning administered by the government complements the failure of future markets to arise and, thus, helps form consensual expectations in the private sector" (Shoven 266). This then allows a foundation for individual firms to make macro-consistent investment plans. Another viewpoint claims that industrial policy fosters the growth of infant industries to become internationally competitive. A final version of this viewpoint holds that government-sponsored research-and-development cooperatives in the computer industry make up for the risk-taking venture-capital market that is lacking in Japan (Shoven 266).

The adversary view, held by neo-classical economists, advocates a removal of government intervention from the competitive process. This view believes in the supremacy of the market mechanism. T. Yakushiji presents a different perspective of the adversary view by having the rationalistic and adversary viewpoints alternating.

Yakushiji's view maintains, "once the policy of fostering a stable structure in a particular industry becomes successful, the industry inevitably starts to drift away from intervention. At that stage, the bureaucracy tends to become coercive, and unless a new relation is created, the intervention is no longer lasting or effective" (Shoven 266).

The interest-representation view may be found in the theory of the "triad." This theory explains that the exclusive coalition of the bureaucracy, the ruling Liberal Democratic Party (LDP), and big business rule the Japanese politically. Recently, some authors have noted that the bureaucracy, in coalition with the LDP, has expanded its mediation of the interests of a greater variety of social groups. The bureaucracy-LDP coalition strikes a balance between all these groups by distributing the social surplus made possible by economic growth. This perspective is held by many Japanese scholars in political science (Shoven 266).

Aoki characterizes the bureaucratic budgetary and planning processes in Japan as a "quasi-social bargaining game" played by various bureaucratic entities that act as agents of respective constituent social groups and referees of the game. This bargaining game is referred to as "administrative pluralism." M. Muramatsu and E. S. Krauss maintain that although diverse interest groups have access to policy-making at various points, boundaries between the state and society become somewhat blurred in patterned pluralism. This occurs even though the bureaucracy is still strong enough to structure policy patterns (Shoven 267).

In virtually all developed countries, mediation among various interests occur through social bargaining. However, the mediation process in Japan is unique due to the unique role played by the bureaucracy. Bureaucrats, in the interest-mediation role, may be thought of as acting as agents for their constituent interests. Their role is different from that of agents in ordinary principal-agency relations, as is the role for Western congress-bureaucracy relations, because of Japan's unique incentive and tenure structure in which bureaucrats participate. Also, in order to mobilize and accumulate the political resources necessary for effective interest representation, Japanese bureaucrats need to legitimize their behavior by assuring their actions are beneficial to rational interests that lie beyond their specific interests. According to Aoki, this need places the Japanese bureaucracy into two roles: a semi-autonomous rational regulator (policymaker) and a quasi-agent of specific interests in the economy (Shoven 267).

Aoki brings forth the notion that the bureaucracy of a firm has isomorphic structures when focusing on the dual role of the bureaucracy in its interaction with the private sector. Once a general policy/strategic orientation is framed, both the bureaucracy and the firm adapt to emergent demands and needs arising from constituents. Neither the bureaucracy nor the management of the firm control constituent units vertically according to a clear-cut line of control and task performance. They resolve conflicts and coordinate tasks between constituent units as much as possible through horizontal bargaining. They do

not dictate a centralized solution according to a well-defined, centralized objective. All of these properties provide the foundation for the political process of pluralism administered by the bureaucracy (Shoven 268). These properties, also, provide the "micro-micro-economic" adjustment process with semi-autonomous problem-solving with semi-horizontal (rather than hierarchical) coordination. This characterization seems to be at odds with the Western notion of an authoritarian and hierarchical Japanese social system. To the contrary, it clearly represents the impressions of most foreigners who have had contact with Japanese businessmen and bureaucrats. "It is not clear who does have the real decision making power in Japanese organizations" (Shoven 268).

However one thing is clear, the Japanese government is not a monolithic system as envisioned in the Japan, Inc. myth. "The Japanese bureaucracy is a multitude of entities (ministries and agencies and their bureaus, divisions, etc.), each of which has its own jurisdictional sphere, acquires its political resources through interactions with other bureaucratic and private entities, and is staffed by bureaucrats whose motivations are conditioned by unique structures of rewards and tenure" (Shoven 268). Each bureaucratic entity has two aspects. One aspect is as a rational/adversarial public regulator over private activities in its jurisdictional sphere. The other aspect is as an agent representing the interests of its jurisdictional constituents through other interests in the bureaucratic coordinating process (Shoven 268).

The first aspect of the bureaucracy as a public regulator is the focal point for the rationality and adversarial perspectives. This aspect is inseparable from and intertwined with the representative aspect. Through the representative role, each bureaucratic entity provides its jurisdictional constituents with access to policy-making. In contrast to high-level political appointees in the American system, the tenure of Japanese bureaucrats are insulated from changes in the Cabinet and electoral results. Why and how are the Japanese bureaucrats receptive to the needs of constituent interests? What is their incentive to act as quasi-agents of their constituents? (Shoven 269).

Most elite bureaucrats start their careers by passing the class A (ko) civil service examination while enrolled in one of the prestigious universities. They are then recruited by particular ministries upon graduation. There is a pecking order among the ministries as to who gets the best and brightest graduates. The Ministry of Finance (MOF) gets first pick, followed by the Ministry of Home Affairs and the Ministry of International Trade and Industry (MITI). Those elite bureaucrats referred to as "qualified" persons on the "career (gumi) team" - who number a little more than 10,000 - normally remain in one ministry until retirement from the bureaucracy, except for occasional temporary transfers (shukko) to related ministries in mid-career (Shoven 269). All bureaucrats are regularly rotated among various sections and bureaus within a ministry throughout their careers.

New class officers in MITI circulate among various jobs in different sections (bureaucrats call this sotomawari, or going around the track). Most members will be posted overseas for a year in a consulate, an embassy, or an office of the Japanese External Trade Organization. On the other hand, non-elite class B officers do not circulate as much. The pattern among them is to settle down in one section for years. This process is called a "walking dictionary" or "human encyclopedia" (iki-jibiki) - a term used for those who do detailed work of a section or someone who shows new career officers the ropes (Johnson 63).

In their first few years, the bureaucrats progress rapidly through the administrative hierarchy. Most become section heads (kakaricho) at an average age of 29.1 years. Progression after that rank becomes competitive. The average age of a division director (kacho) is 42.1 years and the average age of a director-in-general of a bureau (kyokucho) is 50.2 years. The pinnacle of the bureaucratic career is the permanent vice-ministership (jimujikan) in a ministry, which is attained at an average age of 55 years. The term of the vice-minister is not long either, lasting one to two years (Shoven 269).

Because there are only a limited number of bureau chief positions in a ministry, not every member in a class can be one. Those who are promoted are still in the running for vice-ministership. Those who are not are compelled to resign. This resignation is known in Japanese as "to descend from heaven" (amakudari). They "descend" into a lucrative job in a public

corporation or private industry. Ultimately, everyone must "descend" because of pressure from the new entering class advancing from below (Johnson 65). This practice is dictated by the rigid seniority system of the bureaucracy. Also, it provides private businesses with liaisons to the government - an important communication factor between State and society.

Competition in maneuvering for high positions in a ministry normally occurs between classes and not individuals. The process of separating out those who will resign early and those who will stay in the ministry is known as kata-taki (the tap on the shoulder) or mabiki (thinning out). The vice-minister and the chief of the Secretariat have this responsibility, as well as finding good positions for retired officials on corporate boards. The final weeding out is done at the vice-ministerial level, when one man from one class is chosen by the outgoing vice-minister as his own replacement. All of the new vice-minister's classmates must resign to insure his absolute seniority. The new vice-minister then ensures that these high ranking officials (and classmates) "descend" to good positions in industry. New positions for retiring vice-ministers are found for them by the minister and by the ministry's elder statesmen (Johnson 65).

The demand for amakudari bureaucrats is diverse. The LDP in relatively underdeveloped localities recruits potential candidates for governors and Diet members to promote local interests. Industrial associations and private companies recruit spokesmen and managers. Some retired bureaucrats take executive positions in

public corporations that are engaged in financing private jurisdictional concerns with public funds. Finally, others hold memberships on various councils that report to their respective ministers and continue to mediate the various private interests represented there (Shoven 270).

By using the personal communications networks (jinmyaku) that were established during their terms as bureaucrats, the amakudari bureaucrats can gain access to important policy information that might be relevant to the interests of the constituencies which recruited them. Because incumbent bureaucrats are regularly rotated among various sections and bureaus, they are insulated from direct influence from the amakudari bureaucrats. Also, the young incumbent bureaucrats are too ambitious to be swayed by specific jurisdictional constituents and screen their interests with relative autonomy (Shoven 270).

However, because amakudari opportunities offer considerable rewards, monetary and non-monetary, to the successful bureaucrat, individuals are motivated to develop their ministerial and individual reputations throughout their careers. This enhances their post-bureaucratic opportunities by being receptive to the interests of their constituents. Therefore, amakudari bureaucrats successfully link the public and private sectors. Although, amakudari bureaucrats are not in the position to exercise direct influence over the decision-making of the incumbents, the amakudari can circulate opinions about the "reputation" of the incumbents. This, in turn, may affect their bureaucratic careers and post-

retirement opportunities. Therefore, the amakudari practice provides a subtle mechanism for absorbing constituent interests into the bureaucratic process (Shoven 271).

Another important part of the policy-making process concerns the zoku (political tribes) of the LDP. "The zoku of a ministry is an informal group of influential LDP Diet members clustered around the ministerial jurisdictions" (Shoven 271). A member of the Diet becomes a zoku member by acquiring knowledge, influence, and power related to the affairs of that ministry. Zoku members have gained considerable expertise and access to information regarding the affairs of the relevant ministry. Sometimes they have influence over appointments of retiring bureaucrats to their amakudari positions. Zoku politicians have surpassed the bureaucrats in terms of capabilities. The commitment of the zoku is indispensable for the ministry in ensuring passage of desired legislation in the Diet. The bureaucrat must treat the zoku carefully. Thus, together with amakudari bureaucrats, zoku have become important in recognizing and channeling emerging constituent demands to the relevant ministries (Shoven 271).

Besides the receptiveness of bureaucratic entities to constituent interests, the relationship between the bureaucracy and its constituents is not a simple principal-agency relation as bureaucratic-congressional relations are viewed in the United States. In principal-agency relations, agents must follow the instruction of the principal, and the authority of an agent can be terminated by the principal at any time. However, Japanese

ministries are authorized to draft and propose laws on their own initiative, as they feel appropriate, to the Diet through the Prime Minister. Furthermore, Japanese ministries are continual bodies established by statutes and staffed with career bureaucrats who do not get terminated with a change in cabinet or electoral result. Thus, Japanese ministries have more autonomy than normal agents in principal-agent relations. This fact raises the following questions: (1) what is the objective of a ministry and (2) how is the objective of the ministry related to constituent interests and motives of its career bureaucrats? (Shoven 272)

Even though competition among bureaucrats in a ministry is intense, of primary concern for each one is the growth and maintenance of the political influence of their ministry. A strong ministry will enhance the lifetime opportunities of the bureaucrats. The more politically influential the ministry and the more instrumental role the bureaucrats played in it, the better are their chances in amakudari positions in the private sector and in the influential network of communications between the bureaucracy and the private sector (Shoven 272). "Thus, in language familiar to economists, the lifetime career opportunities during, as well as after, bureaucratic service for bureaucrats may be said to be related to maximization of the political stock of the ministry in which they work" (Shoven 272).

According to Aoki, the resources that the ministry can mobilize to implement policy include the following:

1. Fiscal funds allocated to the ministry and available for public expenditure in the interest of jurisdictional constituents; financial funds financed mainly through postal savings and allocated, according to the legislated annual Public Investment and Financing Plan, to public financial corporations under ministerial control and made available as loans to or investments in jurisdictional interests.
2. Incumbent officials recruited through the highly competitive civil service examination and trained on the job; the network of its amakudari bureaucrats through which ministerial policy may be effectively propagated to the private sector and through which jurisdictional interests may be effectively absorbed.
3. Authority to propose laws to the Diet through the prime minister, and good working relations with zoku politicians that can be relied on to strengthen the possibility that proposed laws will be enacted in the Diet.
4. The capability of exercising regulatory power, either according to statutes or by moral suasion, often referred to as "administrative guidance." (Shoven 273).

The ability of the ministries to reproduce these resources is dependent upon two factors: the "utility" of ministerial policy to its jurisdictional constituents and the reputation of the ministry among the general public (or the legitimacy of its policy beyond specific interests). These two factors are important to the political stock of a ministry. "The utility of a ministry to its jurisdictional constituents is, basically, determined by the effectiveness of its representation of those constituents in the bureaucratic process." (Shoven 273). However, interest representation is not enough. Without a good reputation among the general public, it is difficult for a ministry to sustain command of political resources, and its long-term viability may become weakened (Shoven 273).

When a ministry supplies "utility" to its jurisdictional constituents and builds its reputation among the public, it can enhance its political prestige and career opportunities, bureaucratic and post-bureaucratic, for its officials. It can mobilize the support of the zoku for budgets and legislation. Also, it can recruit more entrants to bureaucratic careers, and legitimize its continued use of regulatory powers. If the general reputation of a ministry is damaged, its ability to recruit competent college graduates away from other ministries may be compromised. Also, under the career-long employment system, a ministry cannot recruit a trouble-shooter to recoup losses incurred from a damaged reputation (Shoven 274).

Therefore, each ministry must balance constituent interests and the general welfare (national interests) in its policy-making and implementation so as to maximize its political stock. "Dual representation of both general and specific interests gives the bureaucracy the appearance of relative autonomy and neutrality from specific interests, in spite of its quasi-agent role" (Shoven 274).

The rationality and adversary views referred to at the beginning of this section focus their analysis on one aspect of the bureaucracy - that of a public regulator. However, this aspect overlooks the inseparable dual character of the Japanese bureaucracy. The other aspect is the quasi-social bargaining by various bureaucratic entities with each acting as the quasi agent of constituent interests. Aoki calls this process, "administered pluralism" (Shoven 274).

In the previous section, each bureaucratic entity (ministries, bureaus, divisions, and sections) controls and represents its own jurisdictional constituency. More precisely, there are two types of bureaucratic entities, and only one type has a clearly delineated jurisdiction. Bureaus (and sections) genkyoku are of this first type. These bureaus maintain close contact with organizations representing their jurisdictional constituents through which they absorb constituent interests and implement regulation over their jurisdictional spheres. The other type, called coordinating bureaus by Aoki, include the bureaus whose primary functions are coordination, budgeting, planning, and monitoring. Each genkyoku and ministry represents interests of

constituents and is engaged in quasi-social bargaining. This bargaining is subject to the multi-layered arbitration of coordinating offices. The arbitration of coordinating offices is directed less by a well-defined policy objective than by ad hoc rules of thumb, such as "incrementalism" (Shoven 276). The essential idea of incrementalism is shown in the Japanese budget process. "The budget allocations to (or the budget demands by) ministries increase (or decrease) equiproportionally every year" (Shoven 276). Therefore, once a budget allocation pattern is set by coordinating bureaus, a quasi-social bargaining takes place between genkyoku and the power of the coordinating bureau wanes.

It should, also, be noted that "shadow bargaining" among corresponding zoku takes place. The zoku politicians are, usually, influential members of the LDP and settle important conflicts between ministries among themselves. These political settlements often are quick and decisive, whereas interministerial disputes settled by bureaucrats would normally take a long time and might end in stalemate (Shoven 277).

Aoki raises the question that is the conventional rule of incrementalism consistent with efficient and stable resolution of conflicts among political-stock-maximizing ministries? Aoki provides a "dual parametric rule," in which management acts as a sort of arbiter among constituent bodies of the bureaucracy. This rule suggests under certain regularity conditions, efficient and stable resolution of participants in the firm dictates that rents accrued to the firm be distributed to each constituent body

according to a respective-share parameter. It, also, dictates that other managerial decisions regarding layoffs, investments, and so forth, be made by averaging policies optimal to the constituent bodies, again with the corresponding share-parameters as weights. The share-parameters represent relative bargaining powers of the constituent bodies (Shoven 277).

Section V

Allocative Efficiency

Of course, if the MITI did not use administrative guidance, market forces would reallocate resources to other uses. However, this raises the question - is MITI's administrative guidance efficient in redirecting Japanese resources? Only limited evidence is available on the effects of MITI's custodial efforts on economic welfare. It is important to realize that MITI's policies have not been applied across the board to all Japanese industries. Its attention is only attracted to those businesses thought to be critical to general goals of economic growth or those raising specific economic problems. Furthermore, MITI has only limited direct influence toward small businesses. Today, the interests of the small firms in Japan are protected by the Conservative Party, and financial institutions have been created to assist these industries. During the pre-war period, laborers in large firms

fought for higher wages, whereas small firm workers accepted lower wages because opportunities for independence were reduced in giant factories. The larger firms' system of lifetime employment contributed to the demand for increased wages. The small firms' workers accepted lower wages as the price for training that might lead them to become independent factory owners. Because of the war, the military had a strong interest in the small firms to protect domestic production. Due to this need to protect domestic production in Japan, the Conservative Party backed the small firms. These small firms are still protected by the Conservative Party, which allows them to find their niche in the Japanese economy. MITI has a minimal hand in guiding these small businesses that contribute immensely to domestic production.

Today, most analysts believe in Chalmers Johnson's view that the bureaucratic regulation of MITI contributes to allocative efficiency. However, the idea that bureaucratic control fosters advances in efficiency rests partially on the assumption that the Japanese state could effectively plan and implement policies that change the market behavior of the firms.

However, the bureaucratic regulation view of Johnson does not apply to the Japanese economic situation. MITI's attempt to limit the number of firms, promote consolidation, cartels, scale economies and stable markets did not transform industries. In fact when MITI tried to consolidate industries, the large firms rejected MITI's guidance and managed to thrive on their own! Examples of

where firms did not follow MITI's policies can be found in the aluminum, auto, machine tool, and other industries.

As an example, if MITI's bureaucratic regulation were successful in the machine tool industry, we should have observed a government creating economies of scale in prewar machinery industries, nurturing firms immediately after the war, consolidating production to create scale economies, and direct movement into new technologies. To do so, Japan, guided by its economic bureaucracy (MITI), should have built a more efficient, consolidated industry that would have contributed to its competitive success. "Instead, we observed policy and planning efforts that were ineffective; a decentralized machine tool industry; and, in particular, government initiatives that had no apparent relation to numerically controlled (machine tool) breakthroughs" (Friedman 124). Although Johnson's bureaucratic regulation view contends that Japanese industry was guided by a "strong state," the machine tool industry, as well as many others, exhibits an unbroken record of policy failures. "From the Depression to the present there is not one example of the adoption, let alone success, of a MITI or an MCI initiative" (Friedman 125). If one thinks of a strong state as one that sets goals then manipulates financial and other incentives to achieve them, Japan appears to be extremely weak. In fact, the government was forced to provide resources, but could not insist that its goals be met in exchange (Friedman 125).

Other analysts believe that the Japanese system follows the "market theory." This theory holds that industrial outcomes are a function of competition by generating efficient solutions to market imperatives. MITI's view of "efficient solutions" is to consolidate industries to create scale economies to meet market demands. MITI would rather have monopolistic companies competing in the market, then too many smaller companies creating "chaos." Unfortunately, MITI's policies did not lead to anticipated market outcomes. Without a doubt, the ministry's policies have engendered some allocative inefficiency by strengthening collusion and some technical inefficiency by distorting incentives for additions to capacity and diverting rivalry into nonprice channels (Caves 152).

On the other hand, MITI has beaten down substantially the price that Japan pays for technology imports. Some of its standardization and rationalization have surely lowered real costs. "Indeed, in oligopolistic industries with partial collusion its logically possible that firms become inefficiently diversified, so that an imposed rationalization limiting the items each firm produced could potentially attain scale economies without giving away a significant increase in monopolistic restriction" (Caves 152).

In addition, MITI (and other bureaucracies) may create (substantial) gains via their role as information gatherers and disseminators. The incredibly detailed statistics pertaining to each sectors output and potential relative to international competitors which is (and has been) collected by MITI minimizes the

costs of information collections and processing for firms. In short, MITI turns the information gathering and "market" scanning functions into a public good distributed to all firms - small and large, foreign and non-foreign (McMillan 53).

CONCLUSION

Did the industrial policies and administrative guidance of MITI create the postwar "Japanese Miracle?" Some of the targeted industries of MITI (such as microelectronics and computers) performed well, while others, such as commercial aircraft and shipbuilding, did not. Even though MITI did not target the automobile industry and consumer electronics industries, they thrived beyond expectations without government favors.

In fact, when MITI had strong enforcement over imports of foreign technology, its power was not absolute. During the mid-1960s, MITI advised the eight automobile producers in Japan to merge into three major groups. The groups were to each specialize in one category of cars to achieve economies of scale and improve international competitiveness. However, the industry opposed the directives of MITI, and two of the major automobile firms, Nissan and Toyota, developed into strong international competitors on their own. The same situation happened in the steel industry, where MITI advised production capacity regulation. Kawasaki and

Sumitomo steel firms did not join the administrative guidance cartel of MITI, and they flourished on their own.

Although MITI had its share of successes, it, also, had many failures in industrial policy structuring. Thomas Pepper of the Hudson Institute (Washington, D.C.) "contends that MITI's industrial policy was far less important to Japan's rapid postwar growth than was a confluence of macroeconomic and historical factors, including United States defense guarantees, a stable political system, the abundance of skilled managers and cheap but motivated labor, the availability of western technology, an economic climate favorable to investment, the undervaluation of the yen, and the great size and rapid growth of consumer demand" (Tucker 23).

The Japanese miracle has long been attributed to a monolithic government/industrial complex known as "Japan, Inc." However, most analysts today would agree with Thomas Pepper that even though the State has had a long tradition of intervening in almost every aspect of the economy, the economic success of Japan has resulted from a unique blend of cultural, historical, economical and social factors, in which government policy has played a significant, but not dominant, role.

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